

Message Text

CONFIDENTIAL

PAGE 01 KINSHA 03204 01 OF 02 041309Z

ACTION EB-08

INFO OCT-01 AF-10 EUR-12 ISO-00 AID-05 CIAE-00 COME-00

FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02

OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-07 CEA-01 L-03 DOE-15 SOE-02 NRC-05 GSA-02

AGRE-00 /128 W

-----100916 041515Z /46

R 041105Z APR 78

FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC 9009

INFO AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 2 KINSHASA 3204

DEPT PASS TREASURY AND EXIM

E.O. 11652: GDS

TAGS: EFIN, CG

SUBJECT: REVISED BALANCE OF PAYMENTS PROJECTIONS; RECOMMENDATIONS
FOR 1978 PARIS CLUB DEBT RESCHEDULING FOR ZAIRE

REF: (A) 77 KINSHASA 9535 (B) KINSHASA 2869

1. SUMMARY: IN THE NEAR FUTURE ZAIRE IS EXPECTED TO COMPLY
WITH THE PRE-CONDITIONS FOR RESCHEDULING SET OUT AT THE LAST
PARIS CLUB MEETING. THE EMBASSY RECOMMENDS RESCHEDULING FOR 1978
ON TERMS EQUIVALENT TO THOSE ACCORDED IN 1977, DESPITE REVISIONS
IN OUR BALANCE OF PAYMENTS ESTIMATES WHICH WOULD INDICATE THAT
THE SITUATION MAY BE SOMEWHAT LESS SERIOUS THAN WE HAD ORIGINALLY
BELIEVED. END SUMMARY

2. THE MINUTE OF THE DECEMBER 1977 PARIS CLUB MEETING COMMITTED
ZAIRE'S CREDITORS TO MEETING IN APRIL 1978 TO STUDY FURTHER
DEBT RESCHEDULING FOR ZAIRE ON TERMS NO LESS FAVORABLE THAN FOR
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 KINSHA 03204 01 OF 02 041309Z

1977 PROVIDED THE FOLLOWING THREE PRECONDITIONS WERE MET:

A. APPROVAL OF A NEW STANDBY ACCORD BY THE IMF;
B. CONCLUSION OF A FINAL AGREEMENT WITH THE COMMERCIAL BANKS
FOR THE PROPOSED \$250 MILLION LOAN;
C. BEST EFFORTS ON THE PART OF ZAIRE TO HONOR ITS OBLIGATIONS,
IN PARTICULAR WITH REGARD TO THE BILATERAL RESCHEDULING AGREEMENTS,
AND IN ANY EVENT PAYMENT OF THE FIVE PER CENT DUE UNDER THE 1977

RESCHEDULING AGREEMENT.

ZAIRE IS CURRENTLY ON THE WAY TO MEETING THESE PRECONDITIONS. AN IMF TEAM IS EXPECTED TO ARRIVE IN APRIL TO CONCLUDE NEGOTIATIONS FOR THE NEW STANDBY. THE PRIVATE BANKS ALSO EXPECT TO SIGN THE PROPOSED LOAN FOR ABOUT \$220 MILLION IN APRIL. ZAIRES HAS PAID THE AMOUNTS DUE UNDER THE 1977 AGREEMENT TO ALL ITS CREDITORS EXCEPT ITALY, JAPAN AND THE U.S., AND HAS SET ASIDE FUNDS TO PAY THESE THREE CREDITORS ONCE THE EXACT AMOUNTS DUE ARE SPECIFIED. SHOULD THESE EVENTS NOT MATERIALIZE, WE WILL REVIEW THE SITUATION, BUT AT PRESENT ZAIRES ECONOMIC SITUATION FOR 1978 AND PROSPECTS FOR SATISFYING THE CONDITIONS PRECEDENT WOULD ARGUE FOR GOING AHEAD WITH RESCHEDULING UNDER THE SAME TERMS AS LAST YEAR.

3. PREVIOUS EMBASSY ESTIMATES OF THE ZAIRIAN BALANCE OF PAYMENTS POSITION HAD ASSUMED AN IMPORT BASE IN 1976 OF \$1350 MILLION AND HAD POSTULATED A FOUR PER CENT PER ANNUM REAL GROWTH RATE FOR THE ECONOMY AS A WHOLE. AS WE HAD NOTED, HOWEVER, THIS IMPLIED A FINANCIAL GAP WHICH ZAIRES COULD NOT AFFORD TO FINANCE ON ITS OWN, HAVING EXHAUSTED ITS RESERVES AND RUN UP ARREARAGES WITH ITS TRADITIONAL SUPPLIERS TO A POINT WHERE THEY WOULD NO LONGER SHIP WITHOUT CASH IN ADVANCE. BASED ON FIGURES RECENTLY PUBLISHED BY THE BANK OF ZAIRES, THE FUNDING TO SUPPORT THE PROJECTED IMPORT LEVELS DID NOT BECOME AVAILABLE, AND RECORDED LEGAL IMPORTS, NOT INCLUDING PROJECT RELATED FOREIGN ASSISTANCE, FELL TO \$1046 MILLION IN 1976. EXTRAPOLATING FROM

CONFIDENTIAL

PAGE 03 KINSHA 03204 01 OF 02 041309Z

PRELIMINARY 1977 FIGURES MADE PUBLIC AS AN ADDENDUM TO THE 1976 BANK OF ZAIRES REPORT, GOODS AND SERVICES IMPORTS IN 1977 SHOULD REACH ABOUT \$1100 MILLION, AND MAY BE AS LOW AS \$1000 MILLION. THIS WOULD INCLUDE ABOUT \$100 MILLION IN UNDECLARED ILLEGAL IMPORTS, AN ESTIMATE WHICH LOCAL BUSINESS SOURCES CONSIDER CONSERVATIVE.

4. RATHER THAN GROWING AT FOUR PERCENT FOR THE PAST TWO YEARS, THE ZAIRIAN ECONOMY HAS CONTRACTED BY 4.7 PER CENT IN REAL TERMS IN 1976, FOLLOWED BY AN ADDITIONAL 2.3 PER CENT FALL IN 1977. MAINTAINING OUR BASIC ASSUMPTION OF FOUR PERCENT GROWTH FROM THIS SMALLER BASE, IMPORT PROJECTIONS FOR 1978 WOULD HAVE TO BE REVISED DOWNWARD TO THE \$1100-1200 MILLION RANGE. THIS RESULTS IN A SHARPLY LOWER NET BALANCE OF PAYMENTS GAP, AS SHOWN IN THE FOLLOWING TABLE.

(FINANCIAL SETTLEMENTS BASIS, ALL FIGURES IN MILLIONS OF DOLLARS)

1978	
RECEIPTS	1488
OF WHICH	
(EXPORTS)	(1288)
EXPENDITURES	
OF WHICH	1745

(GOODS & SERVICES) (1150)
(DEBT SERVICE) (495)
(TRANSFERS & OTHER) (100)
GROSS FINANCIAL GAP -257
FINANCING
OF WHICH
(PRIVATE BANKS) (125)
(IMF) (?)
(PUBLIC) (0)
NET POSITION -132

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 KINSHA 03204 02 OF 02 041410Z

ACTION EB-08

INFO OCT-01 AF-10 EUR-12 ISO-00 AID-05 CIAE-00 COME-00

FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02

OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-07 CEA-01 L-03 DOE-15 SOE-02 NRC-05 GSA-02

AGRE-00 /128 W

-----101812 041515Z /46

R 041105Z APR 78

FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC 9010

INFO AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 2 OF 2 KINSHASA 3204

5. THE ABOVE PROJECTED DEFICIT IS DECEPTIVE, HOWEVER, IN THAT IT ASSUMES FULL REPATRIATION OF ZAIRIAN EXPORT EARNINGS, WHICH IN THE PAST HAS NOT OCCURRED. IF ZAIRIAN PERFORMANCE PARALLELS LAST YEAR'S ABOUT 80 PER CENT OF EXPORT RECEIPTS WOULD BE REPATRIATED, FOR TOTAL RECEIPTS OF ABOUT \$1230 MILLION. THIS WOULD IMPLY A GROSS FINANCIAL GAP OF \$515 MILLION, AND A NET GAP OF \$390 MILLION, A PROSPECT WE REGARD AS MORE LIKELY.

6. FOLLOWING ARE THE ASSUMPTIONS UNDERLYING THE ABOVE ESTIMATES:

A. EXPORT EARNINGS: REVISIONS HAVE BEEN MADE BASED ON ACTUAL ZAIRIAN EXPORT PERFORMANCE, IN TERMS OF TONNAGE, IN 1977. IN MOST CASES THESE HAVE BEEN MINOR; HOWEVER IN THE CASE OF COBALT, GOLD, AND TIMBER, THE PRESENT ESTIMATES HAVE BEEN NOTICEABLY INCREASED. THIS REFLECTS THE FACT THAT GECAMINES COBALT SHIPMENTS FROM SHABA AMOUNTED TO SOME 11,000 MT IN 1977, AND PRODUCTION IS EXPECTED TO CONTINUE AT ABOUT THE SAME LEVEL IN 1978. IN ADDITION,

IT APPEARS THAT A LARGE PART OF THE 1977 COBALT PRODUCTION IS STILL IN TRANSIT FROM SHABA TO MATADI. TIMBER EXPORTS IN 1977 WERE MUCH STRONGER THAN EXPECTED, DESPITE CONTINUING FUEL PROBLEMS, REACHING 91,000 CUBIC METERS. WE HAVE NO REASON TO BELIEVE THAT THIS LEVEL

CONFIDENTIAL

PAGE 02 KINSHA 03204 02 OF 02 041410Z

WILL NOT BE MAINTAINED IN 1978. THE INCREASED FIGURE FOR GOLD PRODUCTION REFLECTS A CORRECTION OF AN EARLIER ERROR IN CONVERTING FROM KILOGRAMS TO TROY OUNCES. PRODUCTION IN 1977 AMOUNTED TO 1700 KILOS OF GOLD. THE COFFEE FIGURE ALLOWS FOR EXPORT OF THE 15,000 TONS STOCKED IN KIVU AT THE END OF 1977.

COPPER	485,000 MT AT 56C/LB.	\$598.8 MILLION
COBALT	10,000 MT AT \$6.50/LB.	143.3 "
TIN/CASSITERITE	3,000 MT AT \$5.00/LB.	33.1 "
ZINC	45,000 MT AT 23C/LB.	22.8 "
DIAMONDS (GEM & INDUSTRIAL)	9,000,000 CTS AT \$4.50/CT	40.5 "
PETROLEUM	PER CONCESSION AGREEMENT	31.0 "
GOLD	48,226 OZ. AT \$175/OZ.	8.4 "
OTHER MINERALS		20.0 "
COFFEE	80,000 MT AT \$1.75/LB.	308.6 "
PALM OILS	30,000 MT AT 24C/LB.	15.9 "
TIMBER	90,000 CUBIC METERS	
	AT \$265/CUBIC METERS	23.9 "
COCOA	3,500 MT AT \$1.30/LB.	10.0 "
TEA	4,000 MT AT 78C/LB.	6.9 "
RUBBER	28,000 MT AT 40C/LB.	24.7 "
OTHER AGRICULTURE		5.0 "

B. EXPENDITURES: AS NOTED ABOVE, GOODS AND SERVICES IMPORTS HAVE BEEN REVISED DOWNWARD TO REFLECT THE LOWER IMPORT LEVELS OF THE PAST TWO YEARS. THE DEBT SERVICE BURDEN IS BASED ON THE ESTIMATES OF DEBT SERVICE OWING TO THE PARIS CLUB GOVERNMENTS DISTRIBUTED AT THE DECEMBER MEETING, PLUS APPROXIMATELY \$11 MILLION DUE UNDER THE REVISED TERMS OF THE 1977 RESCHEDULING AND AN ESTIMATE OF THE AMOUNT OWING TO THE LONDON AGREEMENT BANKS OF \$180 MILLION. WE HAVE ALSO INCLUDED IN THESE REVISIONS THE PROBABLE DOWNPAYMENT NECESSARY FOR THE PROPOSED EXIM LOAN FOR COMPLETION OF THE INGA-SHABA TRANSMISSION LINE. WE HAVE NOT ATTEMPTED TO ESTIMATE THE REDUCTION OF ARREARAGES WHICH WILL

CONFIDENTIAL

PAGE 03 KINSHA 03204 02 OF 02 041410Z

PROBABLY BE REQUIRED UNDER ANY NEW STANDBY.

C. FINANCING: NO ATTEMPT HAS BEEN MADE TO ESTIMATE THE SIZE OF THE NEW IMF STANDBY. IN VIEW OF THE CONTINUING DISCUSSIONS ON THE MODALITIES OF IMPLEMENTING THE LONDON BANK LOAN,

ESPECIALLY THOSE NOTED REF (B), WE HAVE ASSUMED AVAILABILITY OF ONLY THE INITIAL 60 PER CENT TRANCHE. AS NOTED PREVIOUSLY, WE KNOW OF NO GOVERNMENTS PLANNING TO PROVIDE STRAIGHT BALANCE OF PAYMENTS ASSISTANCE IN 1978.

7. COMMENT: WHILE ON THE FACE OF IT IT WOULD APPEAR THAT ZAIRE WILL BE OMEWHAT BETTER OFF THAN WE HAD EXPECTED THIS YEAR, THERE ARE SEVERAL POINTS WHICH SHOULD BE TAKEN INTO ACCOUNT. FIRST, DISBURSEMENT OF THE LONDON BANK LOAN IS NOT AUTOMATIC. IN ADDITION TO CONCLUDING A NEW STANDBY WITH THE IMF, ZAIRE MUST ALSO BE CURRENT ON THE INTEREST AND PRINCIPAL PAYMENTS DUE TO THE LONDON AGREEMENT BANKS. AT PRESENT THE GOZ OWES THE LONDON AGREEMENT BANKS. AT PRESENT THE GOZ OWES THE LONDON AGREEMENT BANKS ABOUT \$140 MILLION ON SYNDICATED LOANS AND ADDITIONAL PAYMENTS FALL DUE IN AUGUST WHICH WILL ACTUALLY HAVE TO BE PAID FOR DISBURSEMENT OF THE NEW LOAN TO TAKE PLACE. SECOND, THE IMPORT LEVEL WE HAVE PROJECTED WOULD DO NO MORE THAN BRING CURRENT GDP ALMOST BACK TO THE POINT WHERE IT WAS IN 1976. GIVEN THE GROWTH IN POPULATION SINCE THEN, IT WOULD STILL REPRESENT A DECLINE IN PER CAPITAL REAL GDP BACK TO 1970 LEVELS. THE CONSEQUENCES IN TERMS OF DECREASED LIVING STANDARD ARE OBVIOUS. WE BELIEVE THESE FACTORS ARGUE STRONGLY FOR SUBSTANTIAL DEBT RELIEF IN 1978, AND WE RECOMMEND RESCHEDULING IN 1978 ON TERMS EQUIVALENT TO THOSE FOR 1977.

CUTLER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DEBTS, BALANCE OF PAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 04 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978KINSHA03204
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780145-0367
Format: TEL
From: KINSHASA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780496/aaaaddiq.tel
Line Count: 249
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: f3b309b7-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 KINSHASA 9535, 78 KINSHASA 2869
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 26 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3084201
Secure: OPEN
Status: NATIVE
Subject: REVISED BALANCE OF PAYMENTS PROJECTIONS; RECOMMENDATIONS FOR 1978 PARIS CLUB DEBT RESCHEDULING FOR ZAIRE
TAGS: EFIN, CG
To: STATE
Type: TE
vdkgvwkey: odbcc://SAS/SAS.dbo.SAS_Docs/f3b309b7-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014